

**REPORT OF THE AUDIT OF THE
LEWIS COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
April 30, 2006 Through April 30, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
LEWIS COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period
April 30, 2006 Through April 30, 2007

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for Lewis County Sheriff for the period April 30, 2006 through April 30, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$3,042,636 for the districts for 2006 taxes, retaining commissions of \$120,003 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,922,629 to the districts for 2006 taxes. Taxes of \$33 are due to the health district from the Sheriff and refunds of \$160 are due to the Sheriff from the library district.

Report Comment:

The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robert M. Burnside, Secretary

Finance and Administration Cabinet

Honorable Steven Applegate, Lewis County Judge/Executive

Honorable William D. Lewis, Lewis County Sheriff

Members of the Lewis County Fiscal Court

Independent Auditor's Report

We have audited the Lewis County Sheriff's Settlement - 2006 Taxes for the period April 30, 2006 through April 30, 2007. This tax settlement is the responsibility of the Lewis County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Lewis County Sheriff's taxes charged, credited, and paid for the period April 30, 2006 through April 30, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated June 21, 2007 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robert M. Burnside, Secretary

Finance and Administration Cabinet

Honorable Steven Applegate, Lewis County Judge/Executive

Honorable William D. Lewis, Lewis County Sheriff

Members of the Lewis County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

June 21, 2007

LEWIS COUNTY
WILLIAM D. LEWIS, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period April 30, 2006 Through April 30, 2007

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 352,262	\$ 475,385	\$ 1,120,082	\$ 352,262
Tangible Personal Property	19,604	34,087	56,588	42,074
Fire Protection	5,375			
Increases Through Exonerations	38	64	120	129
Franchise Taxes	125,070	166,396	377,336	
Bank Franchises	20,511			
Penalties	3,930	5,236	12,382	3,909
Adjusted to Sheriff's Receipt	25	35	79	1
Gross Chargeable to Sheriff	<u>526,815</u>	<u>681,203</u>	<u>1,566,587</u>	<u>398,375</u>
<u>Credits</u>				
Exonerations	3,175	4,221	9,995	2,960
Discounts	5,451	6,875	15,655	5,047
Delinquents:				
Real Estate	11,931	15,763	37,459	11,781
Tangible Personal Property	<u>4</u>	<u>6</u>	<u>10</u>	<u>11</u>
Total Credits	<u>20,561</u>	<u>26,865</u>	<u>63,119</u>	<u>19,799</u>
Taxes Collected	506,254	654,338	1,503,468	378,576
Less: Commissions *	<u>21,803</u>	<u>21,684</u>	<u>60,139</u>	<u>16,377</u>
Taxes Due	484,451	632,654	1,443,329	362,199
Taxes Paid	484,451	632,781	1,443,329	362,068
Refunds (Current and Prior Year)				<u>131</u>
Due Districts as of		**		
Completion of Fieldwork	<u>\$ 0</u>	<u>\$ (127)</u>	<u>\$ 0</u>	<u>\$ 0</u>
* Commissions:				
10% on	\$ 10,000			
4.25% on	\$ 1,340,683			
4% on	\$ 1,503,468			
1% on	\$ 188,485			
** Special Taxing Districts:				
Library District	\$ (160)			
Health District	<u>33</u>			
Due Districts or (Refund Due Sheriff)	<u>\$ (127)</u>			

The accompanying notes are an integral part of this financial statement.

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENT

April 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENT
April 30, 2007
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 30, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 12, 2006 through April 30, 2007.

Note 4. Interest Income

The Lewis County Sheriff earned \$405 as interest income on 2006 taxes. The Sheriff was in substantial compliance with his statutory responsibility regarding interest.

Note 5. Sheriff's 10% Add-On Fee

The Lewis County Sheriff collected \$20,598 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Lewis County Sheriff collected \$1,695 of advertising costs and \$2,600 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the fee account as required by statute, and the advertising fees were used to operate the Sheriff's office.

Note 7. Tax Escrow Account

The Sheriff's Tax Escrow Account had a balance of \$6,770 as of April 29, 2006. Interest of \$17 was earned on the account, leaving a balance of \$6,787 as of April 30, 2007. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To Honorable Steven Applegate, Lewis County Judge/Executive
Honorable William D. Lewis, Lewis County Sheriff
Members of the Lewis County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Lewis County Sheriff's Settlement - 2006 Taxes for the period April 30, 2006 through April 30, 2007, and have issued our report thereon dated June 21, 2007. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lewis County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lewis County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Lewis County Sheriff's Settlement - 2006 Taxes for the period April 30, 2006 through April 30, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Lewis County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Lewis County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

June 21, 2007

COMMENT AND RECOMMENDATION

LEWIS COUNTY
WILLIAM D. LEWIS, SHERIFF
COMMENT AND RECOMMENDATION

As of April 30, 2007

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's bookkeeper collects taxes from taxpayers. The bookkeeper also prepares the daily deposit, deposits collections into the bank, posts tax bills into the computer program, prepares the monthly report, prepares checks for tax payment to the districts, and prepared the tax settlement. By not segregating these duties there is an increased risk of misappropriation of assets either by error or fraud. Good internal controls dictate the same employee should not handle, record and reconcile receipts. The Sheriff should implement steps to strengthen internal controls:

- The Sheriff should review the disbursements ledger and monthly reports to agree to checks.
- The Sheriff should review the receipts ledger and agree it to daily checkouts and deposits into the bank.
- The Sheriff should review the bank statements and reconciliations and agree bank balances to the ledgers.

Sheriff's Response: Will attempt to correct this issue in the future.

